

Tax Status of Graduate Student Income

This is a general discussion of the federal and California state tax status of common sources of graduate student income. It is not meant to be a substitute for professional tax advice regarding specific individual circumstances. Since UCSB departmental and central administrative staff may not advise individual students on these matters, students should review available tax materials and make their own decisions about reporting of income, excluding income from taxation, and filing required tax forms. The federal Internal Revenue Service can be reached at 800-829-1040.

This tax information reflects taxation policy outlined in the 1986 Tax Reform Act.

Tax Status of Common Types of Graduate Student Income

1. Merit-Based Support

A. Fellowships and Scholarships for Ph.D. and Master's Students

Funds used for tuition, fees, books and course-related expenses are not taxable income. Stipends used for other purposes are taxable income. Thus a student receiving a fellowship which includes a stipend, the payment of fees, and tuition, will pay taxes only on the stipend. A student receiving only a stipend will subtract the amounts used from the stipend to pay fees and tuition and pay taxes on the remainder. Fellowships providing funds for graduate student research expenses are taxable. Humanities/Social Science Research Grant and Science/Engineering Research Grant stipends, for example, are taxable; Refer to IRS Publication 508 for information on deductible expenses. For example, nonresident tuition fellowships, fee-paying fellowships, employee fee offsets and Doctoral Candidacy Fee Offset payments are not taxable.

B. Traineeships (such as Sea Grant Trainees)

Like fellowships, stipends are taxable. Income used for the payment of tuition, fees, books, and course-related expenses is not taxable.

C. Employment

All salaries are taxable income. The amount the student pays from earnings for fees, tuition, books, etc. may not be excluded.

D. Grants for Travel to Scholarly Meetings

Not taxable. The Graduate Council's Travel Grant, for example, is not taxable (except when travel is not accounted for per University Travel Accounting's requirements and deadlines).

2. Need-Based Financial Aid

A. Loans

Loans are not considered income since they have to be repaid. Loans, therefore, are not reported to the IRS, are not shown as income on tax returns, and are not taxable.

B. Grants-in-aid

Grants-in-aid awarded by the Financial Aid Office are taxable with the exception of that part of aid used for required tuition and fees, books, supplies, and equipment required for courses of instruction.

C. Work-Study

Work-Study awards are considered wages and therefore the entire amount is taxable income.

Reporting and Withholding

1. Employment

All gross earnings are reported to both the federal and state tax services. You should receive a W-2 form, Statement of 2003 Earnings, from the UCSB Payroll office by January 31, 2003. The W-2 reflects your total gross salary income from January 1 through December 31 and the total amount of federal and state taxes and DCP contributions withheld from your paychecks. This information is also reported to the IRS and the State of California. You may call the Payroll Office at ext. 3792 or ext. 8513 concerning lost W-2s.

2. Fellowships, Scholarships, and Traineeships

Federal and state reporting and withholding requirements divide students into three groups of graduate student taxpayers:

A. US citizens and nationals (resident aliens) who are residents of the state of California

The university is not required either to withhold federal or California state tax or to report fellowship income to the IRS or state tax service for this group of graduate students. Individuals are required to report this income themselves and to make any necessary arrangements with the IRS and state tax services to make estimated quarterly tax payments on fellowship income.

The Federal Form 1040-ES and State Form 540ES, which are used for filing estimated taxes, are available from the IRS and state tax services.

B. US citizens and nationals (resident aliens)s who are **not** residents of California

From September 2000 on the university is not required either to withhold federal or California state tax or to report fellowship income to the IRS or state tax service for this group of graduate students. Individuals are required to report this income themselves and to make any necessary arrangements with the IRS and state tax services to make estimated quarterly tax payments on fellowship income.

The Federal Form 1040-ES and State Form 540ES, which are used for filing estimated taxes, are available from the IRS and state tax services.

C. Nonresident aliens (International students)

Although federal income tax has not been withheld from fellowship stipends for graduate students from the *above* listed countries, before September 2000,

the required 7% state income tax was withheld from fellowship stipends for all foreign nationals. (The state withholding tax of 7% is taken on fellowship stipends on any amount greater than \$3000 per quarter.) Before September 2000, international students from all other countries had 14% withheld for federal tax and 7% withheld for state tax from fellowship stipends.

From September 2000 on the university is required to withhold federal taxes (not state) at a flat 14% rate for all nonresident aliens unless the student's country of origin has a tax treaty with the United States. Those countries with tax treaties that allow foreign nationals to exclude fellowship income from the U.S. from the payment of federal tax are:

Austria, Belgium*, China (PRC), Cyprus, Czech Rep.*, Egypt, Estonia*, France*, Germany, Iceland*, Indonesia*, Israel*, Japan*, Kazakhstan*, Korea (ROK)*, Latvia*, Lithuania*, Morocco*, Netherlands (up to 3 yrs.), Norway*, Philippines*, Poland*, Portugal*, Romania*, Russia*, Slovak Rep.*, Spain, Thailand*, Trinidad & Tobago*, Tunisia*, Ukraine*, USSR (up to \$10,000/year)*, and Venezuela*.

*Exemption for up to 5 years only

This treaty listing will be updated periodically as new treaties are ratified.

For all international students, whether there is withholding by the university or not, U.S. fellowship stipend income for the calendar year is reported to the federal tax service. This is reported on the Form 1042S. With state withholding, the university reports the income and withholding on the Form 592B. With both federal and state reportings, the Accounting Office provides copies to the student. You should receive the Form 592B by January 31, and the Form 1042S between February and mid-March.

On the 1042S statement, the Accounting Office also provides data for international students who received fee, insurance and/or nonresident tuition payments made directly to BARC accounts in 2001 by UCSB. These payments are designated "TAX EXEMPT" (not subject to tax). The exempt code on the 1042S statement is "2".

The UCSB Accounting Office requires that each international student receiving a U.S. fellowship stipend complete a tax-related form at the Accounting Office upon the first disbursement of the fellowship.

International students please note, if you have been issued a permanent U.S. Taxpayer I.D. number and it is not displayed in Box 5 of the 1042S, please contact the Accounting Office immediately at ext. 3919 or ext. 3929 to update the information.

Additional Information for All Graduate Students

For questions concerning lost 592B statements, you may contact Accounting Office, at ext. 2219, or for questions concerning lost 1042S statements, you may call ext. 3929.

The university provides another form to graduate students, the 1098-T, with information for IRS Form 8863 (concerning Hope and Lifetime Learning tax credits). For detailed information pertaining to the 1098-T data, visit the UC Education Tax Credit Reporting Service web site at www.1098-t.com/ or call toll free at 877-467-3821. For tax advice, contact the IRS (please see phone, publication and web site references for the IRS below).

Tax Information for Students

IRS References that you may find useful are available at:

<http://www.irs.gov/formspubs/lists/0,,id=97819,00.html>:

Publication 520, "Scholarships and Fellowships"

Publication 901, "U.S. Tax Treaties"

Publication 519, "U.S. Tax Guide for Aliens"

Publication 508, "Tax Benefits for Work-Related Education"

Publication 970, "Tax Benefits for Higher Education" (About TRA '97: The Taxpayer Relief Act of 1997 with information about the Hope Scholarship and Lifetime Learning credits)

Limited assistance with tax return preparation is available through the Office of International Students & Scholars for qualified recipients who reside in and around the University. More information is available by calling ext. 2929 or visiting the OISS web site at www.oiss.ucsb.edu/

Recipients who need to file a US tax return (Form 1040NR) and who do not qualify for local on-campus services may access the form and instructions on the web at <http://www.irs.gov/formspubs/lists/0,,id=97817,00.html>

For federal tax assistance:

World Wide Web address: www.irs.ustreas.gov/

Ph: 800-829-3676 to request forms; Teletax Recorded Info. & Automated Refund Information: 800-829-4477

General info/problem resolution: 800-829-1040; Hearing impaired: 800-829-4059

You may pick up federal forms at the IRS Office, 1332 Anacapa St., #101; M-F; there is no local phone. Federal forms and publications are available online at <http://www.irs.gov/formspubs/>.

For California tax assistance:

World Wide Web address: www.ftb.ca.gov/

Ph: 800-338-0505 to request forms; General info: 800-852-5711;

Hearing impaired: 800-822-6268

You may pick up state forms at the Franchise Tax Board, 4820 McGrath St., 2nd Floor, Suite 270, Ventura, CA 93003; M-F; there is no local phone. California forms and publications are available online at www.ftb.ca.gov/forms/index.html.

Disclaimer

Although every effort has been made to provide accurate information regarding the Tax Reform Act of 1986, the University of California is not responsible for any tax liability or penalty students may incur because of the information provided by our office. The information we have provided is general and should not replace detailed, professional Internal Revenue Service or state Franchise Tax Board advice and assistance.